

**SABINE RIVER AUTHORITY OF TEXAS
AND
SABINE RIVER AUTHORITY,
STATE OF LOUISIANA
TOLEDO BEND - JOINT OPERATION**

**FINANCIAL REPORT
AUGUST 31, 2014**

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**INDEPENDENT AUDITORS' REPORT
ON THE FINANCIAL STATEMENTS**

To the Board of Directors,
Sabine River Authority of Texas, and
The Board of Commissioners,
Sabine River Authority, State of Louisiana

We have audited the accompanying financial statements of the business-type activities of the Toledo Bend – Joint Operation, a joint operation between the Sabine River Authority of Texas and Sabine River Authority, State of Louisiana as of and for the years ended August 31, 2014 and 2013, and the related notes to financial statements, which collectively comprise the Joint Operation's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Joint Operations, as of August 31, 2014 and 2013, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Joint Operation's basic financial statements. The schedule of insurance in force is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of insurance in force has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated October 31, 2014, on our consideration of the Toledo Bend – Joint Operation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Toledo Bend – Joint Operation's internal control over financial reporting and compliance.

Handwritten signature of Brannon Locke Lewis in cursive script.

Lafayette, Louisiana
October 31, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Toledo Bend – Joint Operation (TBJO) annual financial report presents a discussion and analysis of TBJO's financial performance during the fiscal year that ended August 31, 2014. Please read this section in conjunction with TBJO's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

TBJO's net position was \$70,195,312 at August 31, 2014. Of this amount, \$70,095,701 was invested in capital assets and \$99,611 was unrestricted. Net position increased by \$566,986, \$660,168, and \$1,030,829 during the 2014, 2013, and 2012 fiscal years, respectively.

TBJO's capital transfers in were \$4,600,000, \$5,000,000, and \$4,700,000 during the 2014, 2013, and 2012 fiscal years, respectively, and operating expenses were \$4,672,067, \$4,866,615, and \$4,391,618, respectively.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial report consists of three parts: Management's Discussion and Analysis (this section), the basic financial statements, and the notes to the financial statements.

The basic financial statements present information for TBJO as a whole, in a format designed to make the statements easier for the reader to understand. The statements in this section include the statements of net position and the statements of revenues, expenses and changes in fund net position.

The statements of net position presents the assets and liabilities. The difference between total assets and total liabilities is the net position and may provide a useful indicator of whether the financial position of TBJO is improving or deteriorating.

The statements of revenues, expenses and changes in net position presents information showing how TBJO's assets changed as a result of current year operations. Regardless of when cash is affected, all changes in net position are reported when the underlying transactions occur. As a result, transactions are recorded that will not affect cash until future periods.

The financial statements provide information about TBJO's overall financial status. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

TBJO's financial statements are prepared on an accrual basis in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. Under this basis of accounting, revenues are recognized in the period in which they are earned and expenses are recognized in the period in which they are incurred. All assets and liabilities associated with the operation of TBJO are included in the statement of net position.

CONDENSED FINANCIAL INFORMATION

The following tables reflect condensed financial information for TBJO:

TABLE I
CONDENSED STATEMENT OF NET POSITION

ASSETS	<u>2014</u>	<u>2013</u>	<u>2012</u>
Current assets	\$ 1,891,782	\$ 1,718,169	\$ 1,387,954
Capital assets	<u>70,095,701</u>	<u>69,436,804</u>	<u>68,672,081</u>
	<u>\$71,987,483</u>	<u>\$71,154,973</u>	<u>\$70,060,035</u>
LIABILITIES AND NET POSITION			
Current liabilities	\$ 1,792,171	\$ 1,526,647	\$ 1,091,877
Net position:			
Invested in capital assets	\$70,095,701	\$69,436,804	\$68,672,081
Unrestricted	<u>99,611</u>	<u>191,522</u>	<u>296,077</u>
Total net position	<u>\$70,195,312</u>	<u>\$69,628,326</u>	<u>\$68,968,158</u>
Total liabilities and net position	<u>\$71,987,483</u>	<u>\$71,154,973</u>	<u>\$70,060,035</u>

TABLE II
CONDENSED STATEMENT OF REVENUE, EXPENSES, AND
CHANGES IN NET POSITION

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Operating revenues	\$ 627,100	\$ 521,983	\$ 698,951
Operating expenses:			
Salaries and fees	\$ 2,999,915	\$ 2,897,392	\$ 2,574,256
Supplies	107,465	100,890	106,297
Maintenance	465,862	821,817	666,046
Sundry charges	102,500	102,000	102,000
Depreciation	830,016	790,669	753,627
Miscellaneous	<u>166,309</u>	<u>153,847</u>	<u>189,392</u>
Total operating expenses	<u>\$ 4,672,067</u>	<u>\$ 4,866,615</u>	<u>\$ 4,391,618</u>
Operating loss	\$(4,044,967)	\$(4,344,632)	\$(3,692,667)
Non-operating revenue, net	2,796	4,800	23,496
Gain (loss) on disposal of fixed assets	9,157	-	-
Capital transfers in	<u>4,600,000</u>	<u>5,000,000</u>	<u>4,700,000</u>
Change in net position	<u>\$ 566,986</u>	<u>\$ 660,168</u>	<u>\$ 1,030,829</u>

FINANCIAL ANALYSIS

TBJO's total net position increased by \$566,986, \$660,168, and \$1,030,829 or 0.81%, 0.96%, and 1.5% for the years ended August 31, 2014, 2013, and 2012, respectively. The increases in net position for the years ended August 31, 2014, 2013, and 2012 are a result of increased capital contributions from the Sabine River Authority of Texas and Sabine River Authority, State of Louisiana. Capital contributions were increased as a result of the FERC relicensing process.

FERC relicensing costs totaled \$324,519, \$441,019, and \$2,639,132 for the years ending August 31, 2014, 2013, and 2012, respectively.

CAPITAL ASSETS

As of August 31, 2014, TBJO had \$70,095,701 (net of accumulated depreciation) invested in capital assets. During the 2014 fiscal year, TBJO incurred costs of \$324,519 in connection with the FERC relicensing process. This amount was capitalized and will be amortized over the life of the license when it is renewed. The following table reflects the TBJO's capital assets net of accumulated depreciation:

TABLE III
CAPITAL ASSETS NET OF ACCUMULATED DEPRECIATION

	<u>2014</u>	<u>2013</u>	<u>2012</u>
FERC relicensing costs	\$10,435,209	\$10,110,690	\$ 9,669,671
Reservoir and waterways	36,001,159	36,001,159	36,001,159
Dam and spillway	9,471,310	8,708,439	7,946,083
Hydroelectric power plant	13,861,349	14,242,514	14,623,679
Buildings, structures, and equipment	<u>326,674</u>	<u>374,002</u>	<u>431,489</u>
Total	<u>\$70,059,701</u>	<u>\$69,436,804</u>	<u>\$68,672,081</u>

CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

There are currently no known facts, decisions, or conditions that are expected to have a significant effect on financial position or results of operations.

CONTACTING TBJO'S FINANCIAL MANAGEMENT

This financial report is designated to provide our legislatures, state officials, the Louisiana Legislative Auditor's office, patrons, and other interested parties with a general overview of TBJO's finances and to demonstrate TBJO's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Ms. Debra Stagner at (409) 746-2192.

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BASIC FINANCIAL STATEMENTS

TOLEDO BEND – JOINT OPERATION

STATEMENTS OF NET POSITION

August 31, 2014 and 2013

ASSETS	2014	2013
CURRENT ASSETS :		
Cash	\$ 1,039,659	\$ 794,472
Certificate of deposit	541,915	539,486
Due from other governmental entities	266,013	338,555
Accrued interest receivable	437	677
Prepaid expenses	43,758	44,979
	<u>\$ 1,891,782</u>	<u>\$ 1,718,169</u>
CAPITAL ASSETS :		
Non-depreciable	\$ 46,436,368	\$ 46,111,849
Depreciable, net	23,659,333	23,324,955
	<u>\$ 70,095,701</u>	<u>\$ 69,436,804</u>
Total assets	<u><u>\$ 71,987,483</u></u>	<u><u>\$ 71,154,973</u></u>
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES :		
Accounts payable	\$ 1,792,171	\$ 1,526,647
Total liabilities	<u>\$ 1,792,171</u>	<u>\$ 1,526,647</u>
NET POSITION		
Net investment in capital assets	\$ 70,095,701	\$ 69,436,804
Unrestricted	99,611	191,522
Total net position	<u>\$ 70,195,312</u>	<u>\$ 69,628,326</u>
Total liabilities and net position	<u><u>\$ 71,987,483</u></u>	<u><u>\$ 71,154,973</u></u>

See Notes to Financial Statements.

TOLEDO BEND – JOINT OPERATION

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Years Ended August 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
OPERATING REVENUES		
Miscellaneous	\$ 627,100	\$ 521,983
OPERATING EXPENSES		
Salaries and fees	\$ 2,999,915	\$ 2,897,392
Supplies	107,465	100,890
Maintenance :		
Structures	387,888	741,347
Equipment	77,974	80,470
Sundry charges	102,500	102,000
Miscellaneous	166,309	153,847
Depreciation	830,016	790,669
Total operating expenses	\$ 4,672,067	\$ 4,866,615
Operating loss	\$ (4,044,967)	\$ (4,344,632)
Non-operating revenue (expenses) :		
Interest income	\$ 2,796	\$ 4,800
Gain (loss) on disposal of fixed assets	9,157	-
Total non-operating revenue (expenses)	\$ 11,953	\$ 4,800
Loss before contributions and transfers	\$ (4,033,014)	\$ (4,339,832)
Capital transfers in	4,600,000	5,000,000
Change in net position	\$ 566,986	\$ 660,168
Net position, beginning	69,628,326	68,968,158
Net position, ending	\$ 70,195,312	\$ 69,628,326

See Notes to Financial Statements.

TOLEDO BEND – JOINT OPERATION

STATEMENTS OF CASH FLOWS
Years Ended August 31, 2014 and 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Paid to suppliers	\$ (3,575,306)	\$ (3,650,615)
Other receipts	<u>699,642</u>	<u>384,811</u>
Net cash used in operating activities	<u>\$ (2,875,664)</u>	<u>\$ (3,265,804)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital transfers in	\$ 4,600,000	\$ 5,000,000
Purchases of fixed assets	<u>(1,488,913)</u>	<u>(1,555,392)</u>
Net cash provided by capital and related financing activities	<u>\$ 3,111,087</u>	<u>\$ 3,444,608</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of certificate of deposit	\$ (2,429)	\$ (2,905)
Gain on disposal of fixed assets	9,157	-
Interest receipts	<u>3,036</u>	<u>4,670</u>
Net cash provided by investing activities	<u>\$ 9,764</u>	<u>\$ 1,765</u>
Net increase in cash	\$ 245,187	\$ 180,569
Balance, at beginning of year	<u>794,472</u>	<u>613,903</u>
Balance, at end of year	<u><u>\$ 1,039,659</u></u>	<u><u>\$ 794,472</u></u>
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (4,044,967)	\$ (4,344,632)
Adjustments to reconcile operating loss to net cash used in operating activities -		
Depreciation expense	830,016	790,669
Changes in assets and liabilities :		
Due from other governmental entities	72,542	(137,172)
Prepaid expenses	1,221	(9,439)
Accounts payable	<u>265,524</u>	<u>434,770</u>
Net cash used in operating activities	<u><u>\$ (2,875,664)</u></u>	<u><u>\$ (3,265,804)</u></u>

See Notes to Financial Statements.

TOLEDO BEND - JOINT OPERATION
NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

The financial statements of the Toledo Bend - Joint Operation have been prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP") applicable to state and local governments. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The significant accounting and reporting policies and practices used by the Operation are described below.

Reporting entity:

The Toledo Bend - Joint Operation is a joint operation between the Sabine River Authority of Texas and Sabine River Authority, State of Louisiana, and was established by joint resolution of the Texas and Louisiana Sabine River Authority. The operation is administered by an Operating Board composed of three members appointed by the Texas Authority and three members appointed by the Louisiana Authority.

Basis of presentation:

The financial statements were prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange or exchange like transactions are recognized when the exchange occurs (regardless of when cash is received or disbursed).

Operating income reported within the financial statements includes revenues and expenses related to the primary continuing operations of the fund. Principal operating revenues include water royalties as well as other miscellaneous charges. Principal operating expenses are the costs associated with the operations of the fund and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

Proprietary funds are accounted for using a flow of economic resources measurement focus and a determination of net income and capital maintenance. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the balance sheet. The proprietary fund uses the accrual basis of accounting. Revenues are recognized when they are earned, and expenses are recognized at the time liabilities are incurred.

Cash and cash equivalents:

Cash includes amounts in demand and savings deposits and cash on hand. For purposes of the statements of cash flows, all highly liquid investments with an original maturity of three months or less are considered to be cash equivalents.

Capital assets:

Capital assets, which include the dam, spillway, hydroelectric power plant, reservoir, waterways, buildings, structures and equipment are reported at historical cost. All capital assets are depreciated using the straight line method over the following estimated useful lives:

	<u>Years</u>
Dam and spillway	67
Hydroelectric power plant	67
Buildings, structures and equipment	5 - 50

TOLEDO BEND - JOINT OPERATION

NOTES TO FINANCIAL STATEMENTS

Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Impairments:

A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. The Operation is required to evaluate prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. A capital asset generally should be considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstance is outside the normal life cycle of the capital asset. The Operation recorded no impairment losses during the year ended August 31, 2014.

Prepaid expenses:

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses.

Recent accounting pronouncements:

In March 2012, the Governmental Accounting Standards Board (GASB) issued Statement No. 65 *"Items Previously Reported as Assets and Liabilities."* This Statement is effective for financial statements for years beginning after December 15, 2012. This Statement establishes accounting and financial reporting standards that reclassify as deferred outflows of resources or deferred inflows of resources certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources and inflows of resources, certain items that were previously reported as assets or liabilities. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limited the use of the term deferred in financial statement presentations. The adoption of GASB Statement 65 had no effect in the current year.

TOLEDO BEND - JOINT OPERATION
NOTES TO FINANCIAL STATEMENTS

Note 2. Capital Assets

Capital assets activity for the years ended August 31, 2014 and 2013 was as follows:

	Balance 09/01/2013	Increases	Decreases	Balance 08/31/2014
Capital assets not being depreciated :				
FERC relicensing costs	\$ 10,110,690	\$ 324,519	\$ -	\$ 10,435,209
Reservoir and waterways	<u>36,001,159</u>	<u>-</u>	<u>-</u>	<u>36,001,159</u>
	<u>\$ 46,111,849</u>	<u>\$ 324,519</u>	<u>\$ -</u>	<u>\$ 46,436,368</u>
Capital assets being depreciated :				
Dam and spillway	\$ 19,745,005	\$ 1,131,446	\$ -	\$ 20,876,451
Hydroelectric power plan	25,410,994	-	-	25,410,994
Buildings, structures and equipment	<u>1,946,839</u>	<u>32,949</u>	<u>51,864</u>	<u>1,927,924</u>
	<u>\$ 47,102,838</u>	<u>\$ 1,164,395</u>	<u>\$ 51,864</u>	<u>\$ 48,215,369</u>
Less accumulated depreciation for :				
Dam and spillway	\$ 11,036,566	\$ 368,575	\$ -	\$ 11,405,141
Hydroelectric power plant	11,168,480	381,165	-	11,549,645
Buildings, structures and equipment	<u>1,572,837</u>	<u>80,277</u>	<u>51,864</u>	<u>1,601,250</u>
	<u>\$ 23,777,883</u>	<u>\$ 830,017</u>	<u>\$ 51,864</u>	<u>\$ 24,556,036</u>
Capital assets being depreciated, net	<u>\$ 23,324,955</u>	<u>\$ 334,378</u>	<u>\$ -</u>	<u>\$ 23,659,333</u>
Total capital assets, net	<u>\$ 69,436,804</u>	<u>\$ 658,897</u>	<u>\$ -</u>	<u>\$ 70,095,701</u>

TOLEDO BEND - JOINT OPERATION

NOTES TO FINANCIAL STATEMENTS

	Balance 09/01/2012	Increases	Decreases	Balance 08/31/2013
Capital assets not being depreciated :				
FERC relicensing costs	\$ 9,669,671	\$ 441,019	\$ -	\$ 10,110,690
Reservoir and waterways	<u>36,001,159</u>	<u>-</u>	<u>-</u>	<u>36,001,159</u>
	<u>\$ 45,670,830</u>	<u>\$ 441,019</u>	<u>\$ -</u>	<u>\$ 46,111,849</u>
Capital assets being depreciated :				
Dam and spillway	\$ 18,659,332	\$ 1,085,673	\$ -	\$ 19,745,005
Hydroelectric power plan	25,410,994	-	-	25,410,994
Buildings, structures and equipment	<u>1,923,669</u>	<u>32,387</u>	<u>9,217</u>	<u>1,946,839</u>
	<u>\$ 45,993,995</u>	<u>\$ 1,118,060</u>	<u>\$ 9,217</u>	<u>\$ 47,102,838</u>
Less accumulated depreciation for :				
Dam and spillway	\$ 10,713,249	\$ 323,317	\$ -	\$ 11,036,566
Hydroelectric power plant	10,787,315	381,165	-	11,168,480
Buildings, structures and equipment	<u>1,492,180</u>	<u>86,187</u>	<u>5,530</u>	<u>1,572,837</u>
	<u>\$ 22,992,744</u>	<u>\$ 790,669</u>	<u>\$ 5,530</u>	<u>\$ 23,777,883</u>
Capital assets being depreciated, net	<u>\$ 23,001,251</u>	<u>\$ 327,391</u>	<u>\$ (3,687)</u>	<u>\$ 23,324,955</u>
Total capital assets, net	<u>\$ 68,672,081</u>	<u>\$ 768,410</u>	<u>\$ (3,687)</u>	<u>\$ 69,436,804</u>

TOLEDO BEND - JOINT OPERATION

NOTES TO FINANCIAL STATEMENTS

Depreciation expense attributable to water conservation and reclamation totaled \$830,016 and \$790,669 for the years ended August 31, 2014 and 2013, respectively.

Note 3. Contingent Liabilities

Public Law 98-571 directed the Federal Energy Regulatory Commission (FERC) to waive annual administration charges for the use of United States lands during the remaining term of the license to operate the Joint Project. On August 29, 2014 FERC issued a new 50 year license for the project. The current license expires 50 years from August 29, 2014. The waiver is contingent upon FERC determining that the power from the project is sold to the public without profit. All exemptions applied for through August 31, 2014 have been approved.

Toledo Bend - Joint Operation is involved in various legal actions in which claims of varying amounts are being asserted against the Toledo Bend - Joint Operation. The practice of providing for these claims when a loss is probable and a loss becomes fixed or determinable in amount is followed. In the opinion of management, these actions will not result in a significant impact of the Toledo Bend - Joint Operation's financial position.

Note 4. Service Items

Service items included in the categories salaries and fees represent the expenses incurred by Sabine River Authority of Texas and Sabine River Authority, State of Louisiana, individually, for the Joint Operation Water Supply and Hydroelectric System Fund. The associated expense was \$1,689,188 and \$1,627,010 for the years ended August 31, 2014 and 2013, respectively.

Note 5. Deposits

Custodial Credit Risk - Custodial credit risk is the risk that in the event of a bank failure, the Operation's deposits may not be returned to it. The Operation's policy to ensure there is no exposure to this risk is to require each financial institution to pledge their own securities to cover any amount in excess of Federal Depository Insurance Coverage. These securities must be held in the Operation's name. Accordingly, the Operation had no custodial credit risk related to its deposits at August 31, 2014 and 2013.

Note 6. Risk Management

Toledo Bend - Joint Operations is exposed to various risks of loss related to torts; theft of, damage to, and destruction of asset; errors and omissions; and natural disasters. Significant losses resulting from such claims are covered by commercial insurance.

Note 7. Amounts Due To and From Other Governmental Agencies

Included in due from other governmental agencies at August 31, 2014 are amounts due from the Sabine River Authority of Louisiana of \$174,316 for water royalties and \$1,002 for a gas payment, and \$90,695 due from the County of Newton for hazard mitigation demolition. At August 31, 2013, due from other governmental agencies consisted of \$182,455 due from Sabine River Authority of Louisiana for water royalties and \$156,100 due from the County of Newton for hazard mitigation demolition.

TOLEDO BEND - JOINT OPERATION

NOTES TO FINANCIAL STATEMENTS

Included in accounts payable at August 31, 2014 and 2013 are amounts due to the Sabine River Authority of Texas and the Sabine River Authority of Louisiana as follows:

	<u>2014</u>	<u>2013</u>
Sabine River Authority of Texas	\$ 22,445	\$ 14,947
Sabine River Authority of Louisiana	<u>753</u>	<u>628</u>
	<u>\$ 23,198</u>	<u>\$ 15,575</u>

TOLEDO BEND – JOINT OPERATION
SCHEDULE OF INSURANCE IN FORCE
FOR THE FISCAL YEAR ENDING AUGUST 31, 2014
(Policy Period June 30, 2014 Through June 30, 2015)

<u>NAME OF COMPANY</u>	<u>POLICY NO.</u>	<u>DESCRIPTION</u>	<u>LIMITS</u>
Fidelity Insurance Co. (Chubb Group)	35830675	Commercial General Liability (includes terrorism)	\$1,000,000 Each Occurrence \$2,000,000 General Aggregate
AEGIS Houston Insurance Services, Inc.	XJ511603P	Excess Liability (includes terrorism)	\$35,000,000 Each Occurrence \$70,000,000 General Aggregate
CHARTIS – 25% Liberty Mutual – 50% Star Tech ACE - 25%	64588780 3LA106680013 EUTN09162458	Property, Boiler and Machinery, Business Interruption, Flood and Earthquake (includes terrorism)	\$150,000,000 limits Contractor's Equipment, Marine Equipment, and Communications Equipment- per schedule \$3,000,000 Business Interruption
Federal Insurance Company (Chubb Group)	1473528604	Auto Liability/Physical Damage	\$1,000,000 Bodily Injury/ Property Damage
Federal Insurance Company (Chubb Group)	1571710168	Worker's Compensation	\$1,000,000 Each Accident \$1,000,000 Policy Limit \$1,000,000 Each Employee
Admiral Insurance Company	FEI-EIL-188716-00 (policy period 1/8/14-1/8/15)	Underground Storage Tank	\$1,000,000 Each Claim \$2,000,000 All Claims
Chubb Environmental Liability Insurance	373140044	New Pollution Incidents, Non-Owned Disposal Sites, transported Cargo Liability	\$2,000,000 (\$25,000 self insured retention)

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George J. Trappey, III, CPA 2007
Terrel P. Dressel, CPA 2007
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Mary T. Miller, CPA 2011
Mary A. Castille, CPA 2013

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors,
Sabine River Authority of Texas, and
The Board of Commissioners,
Sabine River Authority, State of Louisiana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the business-type activities of the Toledo Bend – Joint Operation, a joint operation between the Sabine River Authority of Texas and Sabine River Authority, State of Louisiana, as of and for the year ended August 31, 2014, and the related notes to financial statements, which collectively comprise the Toledo Bend – Joint Operation's basic financial statements, and have issued our report thereon dated October 31, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Toledo Bend - Joint Operation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Toledo Bend – Joint Operation's internal control. Accordingly, we do not express an opinion on the effectiveness of Toledo Bend – Joint Operation's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Toledo Bend - Joint Operation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Lafayette, Louisiana
October 31, 2014

TOLEDO BEND - JOINT OPERATION

SCHEDULE OF FINDINGS AND RESPONSES
Year Ended August 31, 2014

We have audited the basic financial statements of Toledo Bend - Joint Operation, a joint operation between the Sabine River Authority of Texas and Sabine River Authority, State of Louisiana, as of and for the year ended August 31, 2014, and have issued our report thereon dated October 31, 2014. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Our audit of the financial statements as of August 31, 2014 resulted in an unmodified opinion.

Section I - Summary of Auditors' Reports

A. Report on Internal Control and Compliance Material to the Financial Statements

Internal Control

Material Weakness(es) Identified

☐ Yes ☒ No

Control Deficiencies Identified That
Are Not Considered to be Material
Weakness(es)

☐ Yes ☒ None Reported

Compliance

Noncompliance Material to Financial
Statements

☐ Yes ☒ No

Section II - Financial Statement Findings

No matters are reported.

TOLEDO BEND - JOINT OPERATION
SCHEDULE OF PRIOR YEAR FINDINGS
For the Year Ended August 31, 2014

Section I. Internal Control and Compliance Material to the Financial Statements

None reported.

Section II. Internal Control and Compliance Material to Federal Awards

Not applicable.

Section III. Management Letter

There were no matters reported in a separate management letter for the year ended August 31, 2013.